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## **Coverdell Education Accounts Benefit Low- and Middle-Income Families** **Kindergarten to College: Tax Free Education Savings**

The President has indicated that he will veto the Coverdell-Torricelli education savings account proposal because it “would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families.” The fact is, the Coverdell-Torricelli proposal — contained in S. 1133 — utilizes the same income limitations as the current \$500 education IRA that President Clinton signed into law as part of the Taxpayer Relief Act of 1997.

**Majority of Benefits Go to Middle-Income Families.** Of families expected to take advantage of the tax benefits of the Coverdell plan, 70 percent have incomes of \$75,000 or less, and 87 percent have earnings of \$100,000 or less, according to the Joint Committee on Taxation (JCT).

**Parents of Public School Students Will Benefit.** About 14 million Americans are expected to sign up for these accounts by the year 2002, and 75 percent of them will have children enrolled in public elementary and secondary schools. Contributions can be saved over time to cover college expenses, or used when needed to pay for a wide range of education expenses during a student's younger years, such as:

- text books, computers, tutoring, home schooling, after-school care, college preparation courses, school uniforms, transportation; and advanced placement college credits.

**Special Needs Individuals Receive Lifetime Benefit.** More than 5 million individuals (through age 21) require special needs services. The Coverdell proposal recognizes these special circumstances and sets no limit on how long a parent or other sponsor can contribute to, or withdraw from, an education savings account for a special needs individual.

**Millions Who Aren't Wealthy Opt for Private Schools.** Despite the Administration's misleading claims, millions of low- and middle-income children and their parents are the primary consumers of private elementary and secondary education. According to data collected by the National Catholic Education Association, of those families whose children attended Catholic elementary schools during the 1994-1995 school year:

- 68 percent have incomes of \$35,000 or less; and
- 88 percent have incomes of \$50,000 or less.

**Clinton's 'Wealthy Families'.** A third of families with two or more children in Catholic elementary schools qualify for the Earned Income Tax Credit (EITC). The EITC, not commonly associated with the wealthy, phases out at just over \$29,000 income for families with two children. Yet, one out of three families sending their children to Catholic elementary schools (with a total enrollment of 1.8 million) report incomes below \$25,000.

**Education Savings Accounts Increase — Do Not Divert — Resources.** The cost of providing families with a tax break for education savings will not decrease federal or state funding for education by a single dime. The \$1.6 billion cost of the Coverdell ESA provisions will be offset with additional revenues from clarifying two tax provisions — effectively providing an additional \$1.6 billion in education resources.

**The Need for Education Savings is Critical.** American families incurred more debt to finance college education between 1990 and 1995 than during the 1960s, 1970s, and 1980s combined. According to NELLIE MAE, the largest nonprofit provider of education loans in the nation:

- The average student loan debt increased from \$8,200 in 1991 to \$18,800 in 1997.
- 40 percent of borrowers surveyed said that repayment of their student loans caused them to delay purchasing a home (versus 25 percent in 1991).

**Insurance Against Rising College Costs.** As the cost of higher education continues to outpace inflation, this expansion of the Education IRA from \$500 to \$2,000 offers the best return on investment and the best protection against future debt available to parents. According to the National Center for Education Statistics (1996 Digest of Education Statistics):

- The average cost of attending a four-year institution has nearly doubled in just the last ten years from \$5,964 in 1986 to \$10,315 by 1995; and
- Over the last 20 years, college tuition has skyrocketed 400 percent from \$2,577 in 1976 to \$10,315 by 1995.

**Education Savings Accounts Offer Substantial Return on Investment.** One look at the bottom line reveals the potential value Education Savings Accounts offer parents and students at every grade level. Using a conservative 7.5 percent annual rate of return on an annual contribution of \$2,000, contributors would earn:

- \$15,574 after 6 years, by the time a child enters first grade;
- \$39,611 after 12 years, by the time he or she enters junior high;
- \$50,236 after 14 years, by the time he or she enters high school; and
- \$69,354 after 17 years, by the time he or she is applying for college.

By contrast, contributing the maximum \$500 annually to the recently enacted education IRA (contained in the Taxpayer Relief Act) would yield only \$16,129 after 17 years.

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